

THE BAKER-RAULANG COMPANY

CLEVELAND, OHIO



REPORT TO SHAREHOLDERS

FOR YEAR ENDING DECEMBER 31, 1942

THE BAKER-RAULANG COMPANY

REPORT TO SHAREHOLDERS

Cleveland, O., March 1st, 1943

TO THE COMMON SHAREHOLDERS
OF THE BAKER-RAULANG COMPANY:—

There has been considerable progress in your company by way of increased production since our report to you of a year ago, but there have been no outstanding changes of any other nature except those due to the national conditions. The Financial Statements of the Company for the year 1942, included in this report, have been examined by our auditors as therein stated. The Profit and Loss statement included therein sets forth the principal details of the years operations.

In even thousands of dollars, the net sales of the company for the year 1942 are \$6,882,000.00 which amount is nearly \$2,911,000.00 more than for 1941,—an increase of 73%. During the year bank loans were reduced slightly, from \$200,000.00 to \$150,000.00. The profit, before providing for Federal Income Taxes, as shown, is about twice that of the previous year. The percentage of net profit on the sales volume as given above, after providing for Federal Income Taxes, is considerably smaller for the year 1942, being less than 4 $\frac{1}{4}$ % against slightly over 8% for 1941. The corresponding profits in dollars are \$288,000.00 for 1942 and \$321,000.00 for the previous year. Sixty percent of the volume of business was in industrial trucks and allied kinds of machines, and 40% in various kinds of war materials produced with the converted facilities normally building commercial bodies. The operating profit shown as \$1,524,000.00 reflects the increases in productions costs of all products and in the case of industrial trucks their fixed prices which were held at the October 1, 1941 level by Government decree. The net profit, reflects the provisions made for Federal Income Taxes in the amount of \$1,232,000.00 which is 80% of the probable gross profit to which it will apply.

Due to the unusual conditions of the times, we have given special attention to providing such reserves as seem advisable. To a considerable extent these are estimates and not all can be based upon previous experience. We have added \$123,000.00 to the post-war reserve during 1942, the total at the end of the year being \$150,000.00. It will probably be advisable to increase this reserve during the war period so as to provide an amount adequate for returning the business to a sound post-war footing as early as national conditions permit. In the meantime, your company is, of course, confronted with the problems incident to every company engaged 100% in war production. The Price Adjustment Board of the Navy Department has under review for renegotiation a considerable portion of the 1942 business. The War Labor Board is in control of all wage and salary adjustments; the War Manpower Commission and Selective Service System of all labor; the War Production Board of materials, shipments, and the kinds of products we are permitted to manufacture; and the Office of Price Administration all prices for materials and products. There are, of course, other Government agencies which have more or less to say as to the conduct of your business and the disposition of such earnings as may be allowed.

In addition to operating the business during the war emergency period, we are devoting considerable attention to the post-war alignment of it when the proper time arrives. Your company has paid all current dividends on the Preferred shares throughout 1942 as the same accrued, and in addition, \$2.50 per Preferred share on the cumulated dividends. It is the desire of your Company to pay the remaining cumulated dividends on the Preferred shares, which now amount to \$9.50 per share, at the earliest possible date that the net earnings and available cash of the Company will warrant payment of same, and in addition to keep dividends on the Preferred shares paid as the same accrue.

Respectfully submitted,

E. J. BARTLETT,

President.

Data For Report To Stockholders
THE BAKER-RAULANG COMPANY, CLEVELAND, OHIO
December 31, 1942

Board of Directors,
The Baker-Raulang Company,
Cleveland, Ohio.

We have examined the balance sheet of The Baker-Raulang Company as of December 31, 1942, and the statements of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

We tested trade accounts receivable by direct communication with recorded customers and observed procedures used to determine inventory quantities. Stores inventories of parts, sub-assemblies, raw materials, and supplies are based on counts, weights, or measurements made by employees of the Company as of December 31, 1942. Orders in process of manufacture or assembly are based on continuous records of accumulated costs, less estimated costs of partial deliveries. We also made test checks of the computations and basis of pricing.

The Company sold property, plant, and equipment not used in operations during the year 1941 at a book loss of \$125,307.96, including a minor amount of appreciation. By order of the Board of Directors the entire book loss was charged to capital surplus, rather than to profit and loss or earned surplus which would conform to generally accepted accounting principles.

In our opinion, except for the charge to capital surplus of the loss from the sale of property mentioned in the preceding paragraph, the accompanying balance sheet and related statements of profit and loss and surplus present fairly the position of The Baker-Raulang Company at December 31, 1942, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
March 5, 1943

THE BAKER-RAULANG COMPANY

BALANCE SHEET

December 31, 1942

Assets

CURRENT ASSETS

Cash		\$	314,168.93	
Trade accounts receivable, less reserve of \$4,500.00			678,222.55	
Inventories—at lower of cost or market:				
Parts and sub-assemblies	\$	493,250.79		
Orders in process		479,202.54		
Raw materials and supplies		301,701.34		
		<u>\$1,274,154.67</u>		
Less reserves		<u>6,605.39</u>	<u>1,267,549.28</u>	<u>\$ 2,259,940.76</u>

OTHER ASSETS

Estimated postwar refund of federal excess profits taxes	\$	116,000.00		
Mortgage note receivable from sale of real estate and accrued interest		75,625.00		
Sundry deposits, advances and receivables, less reserve of \$1,165.64		<u>11,489.03</u>	<u>203,114.03</u>	

PROPERTY, PLANT, AND EQUIPMENT—

Note A

Land		\$	234,335.87	
Buildings, machinery, and equipment	\$	1,479,361.28		
Less reserves for depreciation		<u>1,079,190.79</u>	<u>400,170.49</u>	
Emergency facilities	\$	178,913.38		
Less reserves for amortization		<u>42,995.99</u>	<u>135,917.39</u>	<u>770,423.75</u>

PATENTS AND GOOD WILL (nominal amount) 1.00

DEFERRED CHARGES

Tools	\$	29,227.27		
Prepaid insurance, taxes, etc.		<u>21,114.94</u>	<u>50,342.21</u>	
				<u>\$3,283,821.75</u>

Note A—Property, plant, and equipment, exclusive of land, are stated generally on the basis of independent appraisals made at various dates, the latest being as of January 21, 1926, plus subsequent additions at cost and less adjustments of carrying amounts for certain machinery and equipment as determined by the management and less reserves for depreciation to December 31, 1942. Land is stated as appraised by The Cleveland Real Estate Board as of May 31, 1915, plus subsequent additions at cost and less adjustment of \$15,206.76 to reduce the carrying amount to an appraisal by the Board of Directors as of December 31, 1934. The amounts stated herein for these items do not purport to represent amounts currently realizable or cost.

THE BAKER-RAULANG COMPANY

Liabilities, Capital Stock, and Surplus

CURRENT LIABILITIES

Notes payable to bank		\$	150,000.00	
Accounts payable:				
Trade accounts	\$	182,021.77		
Commissions—dealers		96,854.19		
Customers deposits and credit balances		22,328.13		
Salaries, wages, and commissions		15,634.64		
Pay roll taxes		13,847.74	330,686.47	
Accrued:				
Federal capital stock tax—estimated	\$	20,000.00		
Local taxes		10,913.77	30,913.77	
Dividend payable			9,303.75	
Federal taxes on income:				
On year ended December 31, 1942—estimated		\$1,232,000.00		
Less U. S. Treasury notes—held for the payment of taxes		700,830.00		
		\$	531,170.00	
On prior year (\$52,564.93 provided for in prior year)		59,360.63	590,530.63	\$1,111,434.62

RESERVE

For postwar adjustments and general contingencies				150,000.00
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CAPITAL STOCK AND SURPLUS

Capital stock:				
Preferred stock, 5% cumulative if earned, par value \$100.00 per share, redeemable at \$105.00 a share and accumulated unpaid dividends—Note B:				
Authorized 7,500 shares; issued 7,443 shares		\$	744,300.00	
Common stock, without par value—stated capital \$1.00 per share:				
Authorized 100,000 shares; issued (including 279 shares reserved for exchange for prior issues of common stock) 78,243 shares			78,243.00	
		\$	822,543.00	
Surplus—Note C:				
Capital surplus	\$	613,201.71		
Earned surplus—since July 1, 1936		586,642.42	1,199,844.13	2,022,387.13
				\$3,283,821.75

Note B—Dividends on preferred 5% stock are cumulative from July 1, 1936, if earned, and the earned accumulation neither paid or provided for at December 31, 1942, amounts to \$70,690.78, or approximately \$9.50 a share.

Note C—Reference is made to comments of Messrs. Ernst & Ernst with respect to charging capital surplus for loss on property, plant, and equipment which was sold during the year 1941.

THE BAKER-RAULANG COMPANY

Profit and Loss Statement

Year ended December 31, 1942

	INDUSTRIAL TRUCK DIVISION	COMMERCIAL BODY DIVISION	COMBINED
Net sales -----	\$4,078,223.32	\$2,803,356.03	\$6,881,579.35
Cost of goods sold -----	2,511,063.39	2,032,026.35	4,543,089.74
GROSS PROFIT	\$1,567,159.93	\$ 771,329.68	\$2,338,489.61
Expenses:			
Sales engineering -----	\$ 642,353.54	\$ 24,577.30	\$ 666,930.84
Administrative and general -----	98,881.06	48,624.02	147,505.08
TOTAL EXPENSES	\$ 741,234.60	\$ 73,201.32	\$ 814,435.92
OPERATING PROFIT	\$ 825,925.33	\$ 698,128.36	\$1,524,053.69
Other income:			
Royalties received -----		\$ 5,970.00	
Interest earned -----		4,642.44	
Recovery on accounts -----		1,488.05	
Net income from rented property -----		1,422.84	
Sundry -----		52.20	13,575.53
			\$1,537,629.22
Other deductions:			
Provision for postwar adjustments and general contingencies -----		\$ 123,000.00	
Interest expense -----		6,404.98	
Loss on equipment sold -----		687.56	130,092.54
PROFIT BEFORE TAXES ON INCOME			\$1,407,536.68
Taxes on income—estimated:			
Provision for the year:			
Federal normal tax and surtax -----	\$ 69,000.00		
Federal excess profits tax -----	1,163,000.00	\$1,232,000.00	
Less postwar excess profits tax refund		116,000.00	
Adjustment for prior years -----		\$1,116,000.00 3,524.08	1,119,524.08
		NET PROFIT	\$ 288,012.60

Note—Profits of the Company include those from transactions subject to the provisions of the War Profits Control Act providing for recapture of any profits found as a result of renegotiation to be excessive. Renegotiation proceedings have been commenced but have not progressed to a point where determination can be made as to the effect, if any, that such renegotiation may have upon the financial statements of the Company. Any refund of profits that might result, would be after credit of the amount of applicable income and excess profits taxes paid thereupon.

THE BAKER-RAULANG COMPANY

Statement Of Surplus

Year ended December 31, 1942

CAPITAL SURPLUS

Balance at January 1, 1942, and December 31, 1942— Note A -----	\$ 613,201.71
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EARNED SURPLUS (since July 1, 1936)

Balance at January 1, 1942—Note A -----	\$ 354,452.32
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Add:

Net profit for the year -----	288,012.60
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\$ 642,464.92

Deduct cash dividends declared:

On preferred stock:

\$2.50 per share applicable to the first semi-annual dividend period for the year 1940 -----	\$ 18,607.50
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\$2.50 per share applicable to the second semi- annual dividend period for the year 1941 ----	18,607.50
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\$2.50 per share applicable to the first semi-annual dividend period for the year 1942 -----	18,607.50	55,822.50
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BALANCE AT DECEMBER 31, 1942 ----	\$586,642.42
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Note A—Reference is made to comments of Messrs. Ernst & Ernst with respect to charging capital surplus for loss on property, plant, and equipment which was sold during the year 1941.

Note B—Reference is made to note to the profit and loss statement with respect to renegotiation of profits subject to the provisions of the War Profits Control Act.





